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OO RUEHBI RUEHCI RUEHDBU RUEHLH RUEHPW
DE RUEHIL #1147/01 0711332
ZNR UUUUU ZZH
O 121332Z MAR 07
FM AMEMBASSY ISLAMABAD
TO RUEHC/SECSTATE WASHDC IMMEDIATE 7655
INFO RUEHAH/AMEMBASSY ASHGABAT 2062
RUEHTA/AMEMBASSY ASTANA 0041
RUEHEK/AMEMBASSY BISHKEK 4082
RUEHLM/AMEMBASSY COLOMBO 1223
RUEHKA/AMEMBASSY DHAKA 1999
RUEHDBU/AMEMBASSY DUSHANBE
RUEHBUL/AMEMBASSY KABUL 6915
RUEHKT/AMEMBASSY KATHMANDU 7983
RUEHNE/AMEMBASSY NEW DELHI 0528
RUEHNT/AMEMBASSY TASHKENT 2797
RUEHCG/AMCONSUL CHENNAI 3252
RUEHKP/AMCONSUL KARACHI 5122
RUEHCI/AMCONSUL KOLKATA 0901
RUEHLH/AMCONSUL LAHORE 1690
RUEHBI/AMCONSUL MUMBAI 3633
RUEHPW/AMCONSUL PESHAWAR 9974
RHWSMRC/USCINCCENT MACDILL AFB FL
RUEHNO/USMISSION USNATO 2000
RUEAIIA/CIA WASHDC
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHINGTON DC
RUEKJCS/JOINT STAFF WASHINGTON DC

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E.O. 12958: N/A

TAGS: [EAID](#) [PREL](#) [PGOV](#) [PK](#)

SUBJECT: OPERATIONAL PLAN REVIEW - PAKISTAN

¶1. We look forward to the upcoming Operational Plan Review for Pakistan, scheduled to take place in Washington on March 13.

¶2. In advance of that review, let us quickly highlight two items that were noted in the transmittal memo for our Operational Plan in early February: First, the importance of maintaining the annual budget support line item at \$200 million; and, second, the importance of moving forward on a new security and development initiative for the frontier areas bordering Afghanistan, starting with the Federally Administered Tribal Areas (FATA).

¶3. The Operational Plan submitted in early February used control figures provided by Washington within the context of a Continuing Resolution that necessarily had to anticipate "worst case" scenarios. We understand that the Continuing Resolution that was actually approved by Congress provides for a somewhat more robust foreign assistance budget, hopefully allowing for some further flexibility as the Operational Plan review unfolds.

¶4. For Pakistan, two issues are especially important:

-- CASH TRANSFER: FY 2007 marks the third year of a five-year commitment of ongoing U.S. assistance to Pakistan. For the last two years, we have maintained the budget support part of that commitment at \$200 million, with all obligations occurring prior to the end of the Pakistan fiscal year on June 30. The budget support also provides an important foundation for an annual dialogue on shared economic objectives. In addition, the Government of Pakistan annually provides the equivalent of \$200 million in local currency to help meet its commitment to increase expenditures in health, education and welfare. Given initial control figures from Washington, the initial Operating Plan shows a budget support

of \$152 million this fiscal year. We very much hope that as part of the Operational Plan review, this figure can now be increased to \$200 million.

-- SUPPORT FOR FATA: The initial Operational Plan transmittal memo noted that additional funding might be available for FATA later in the year, possibly entailing "subsequent adjustments in the current operational plan." Under any scenario, the Operational Plan needs to be adjusted to launch initial activities in FATA under the "peace and security" objective implemented by USAID, including a new initiative focused on capacity building in key FATA-related institutions, including the FATA Secretariat and the new FATA Development Authority (FDA).

15. Over the past several months, the country team has developed extensive documentation on a proposed initiative to support the Government of Pakistan's own Sustainable Development Plan, which is about to be officially issued. This documentation includes a strategy for supporting Government of Pakistan efforts in FATA discussed in Washington in December and a program summary aimed at developing a new, stand-alone Strategic Objective within the peace and security area of the Operational Plan that is now being finalized. Again, as the Operational Plan discussion takes place this week, we are firmly convinced that adjustments need to be made in the current Operational Plan to ensure that a new multi-year development initiative is launched in FATA in FY 2007 rather than having to wait until FY 2008.

ISLAMABAD 00001147 002 OF 002

16. Thanks again for your efforts to undertake the challenging and important task of consolidating foreign assistance budgets and ensuring that country teams launch complementary programs that focus on important national objectives. This has definitely taken place within the Islamabad country team at this critical juncture in the U.S.-Pakistan partnership. Again, we very much hope that the two adjustments envisaged when we submitted the initial Operating Plan in early February -- one focused on the budget support line item, the other on a FATA initiative appearing under the peace and security objective -- will be made during the upcoming Washington review.

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